



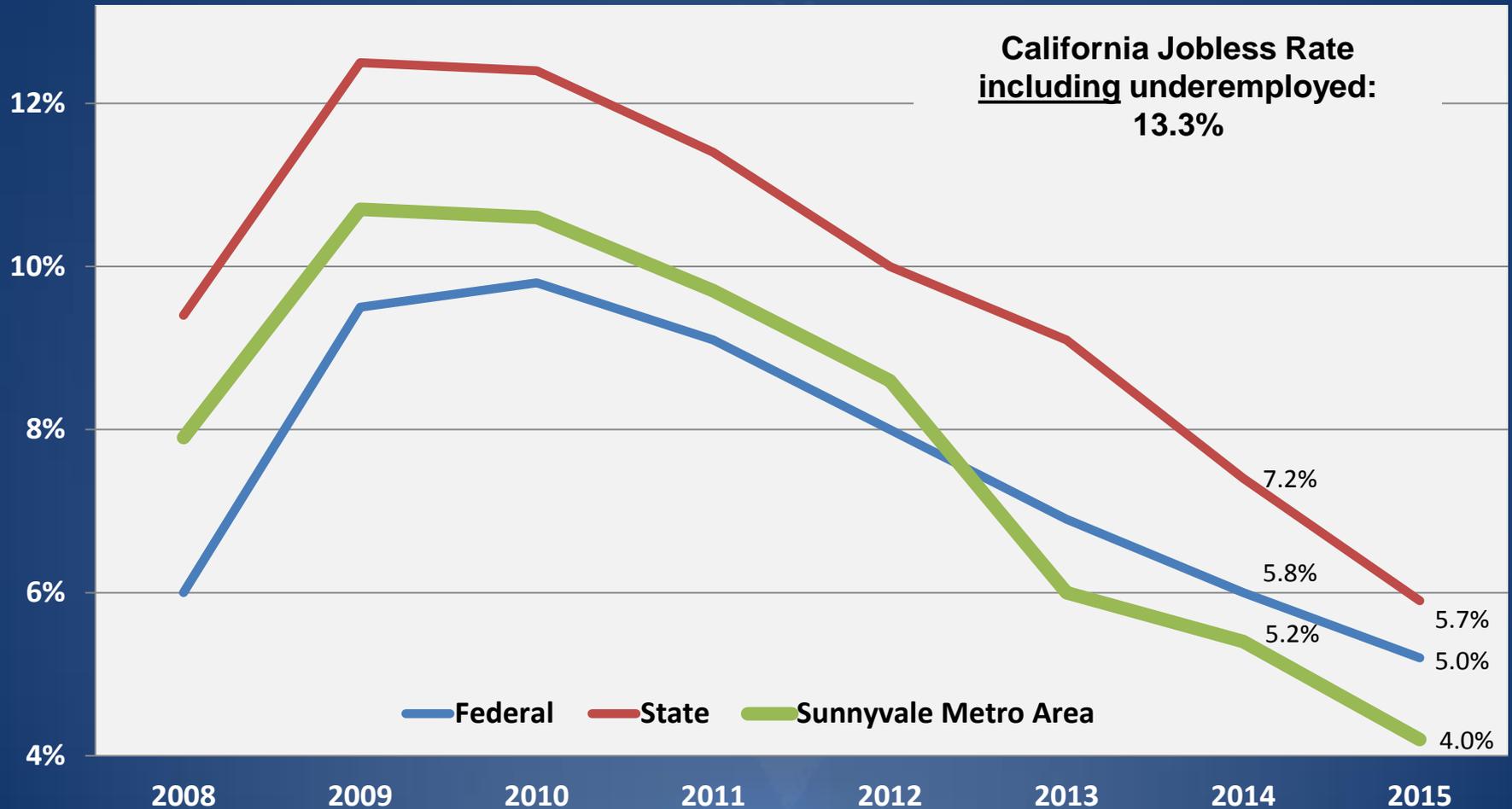
# Preliminary Fiscal Outlook 2016

*Study/Budget Issues Workshop  
January 29, 2016*

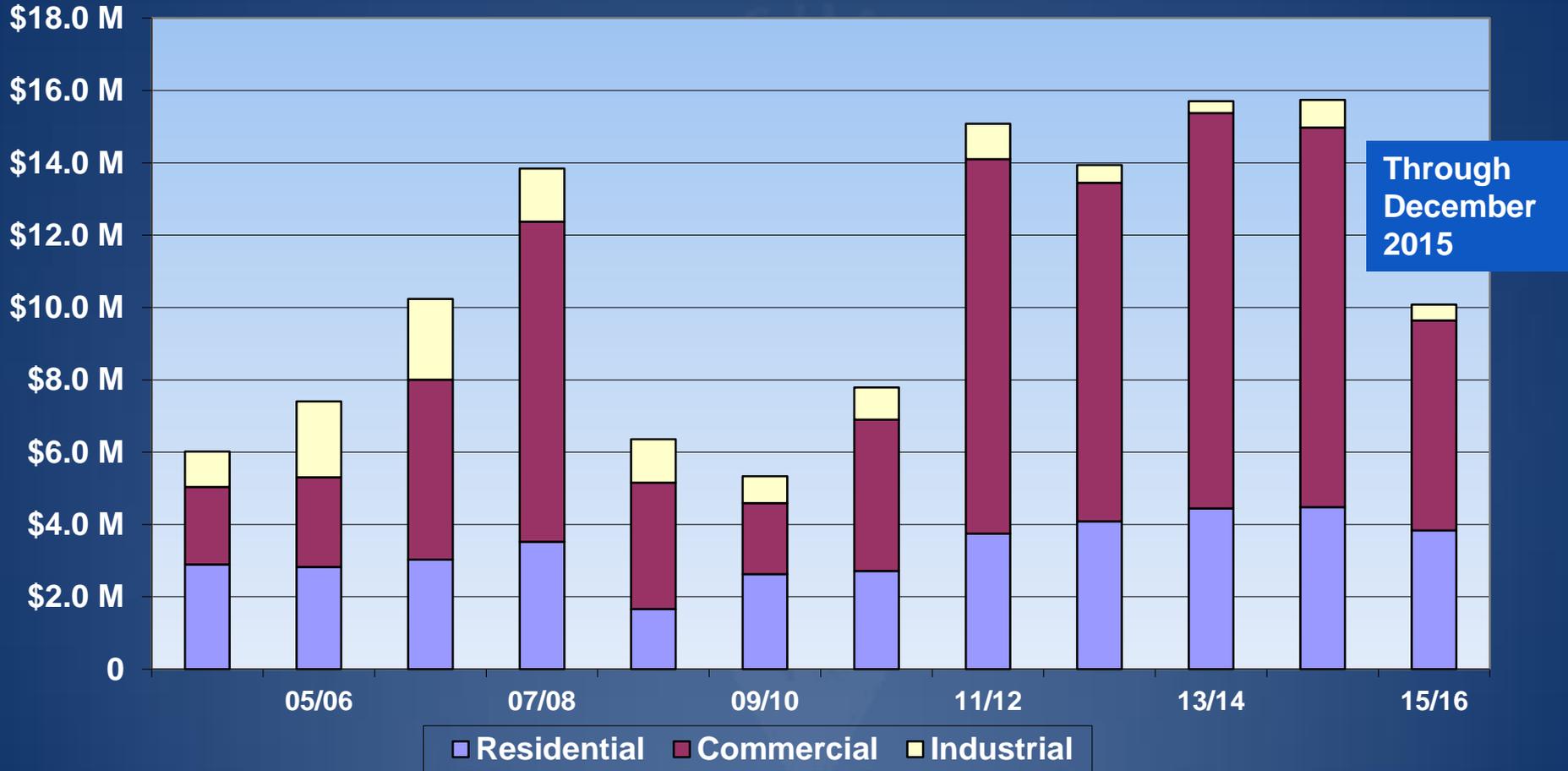
# 2016 Economic Forecast

- The economy has rebounded and remains strong, however moderation is expected
- Positive economic indicators:
  - jobless rate
  - development activity
  - housing prices
  - consumer spending
  - modest inflation

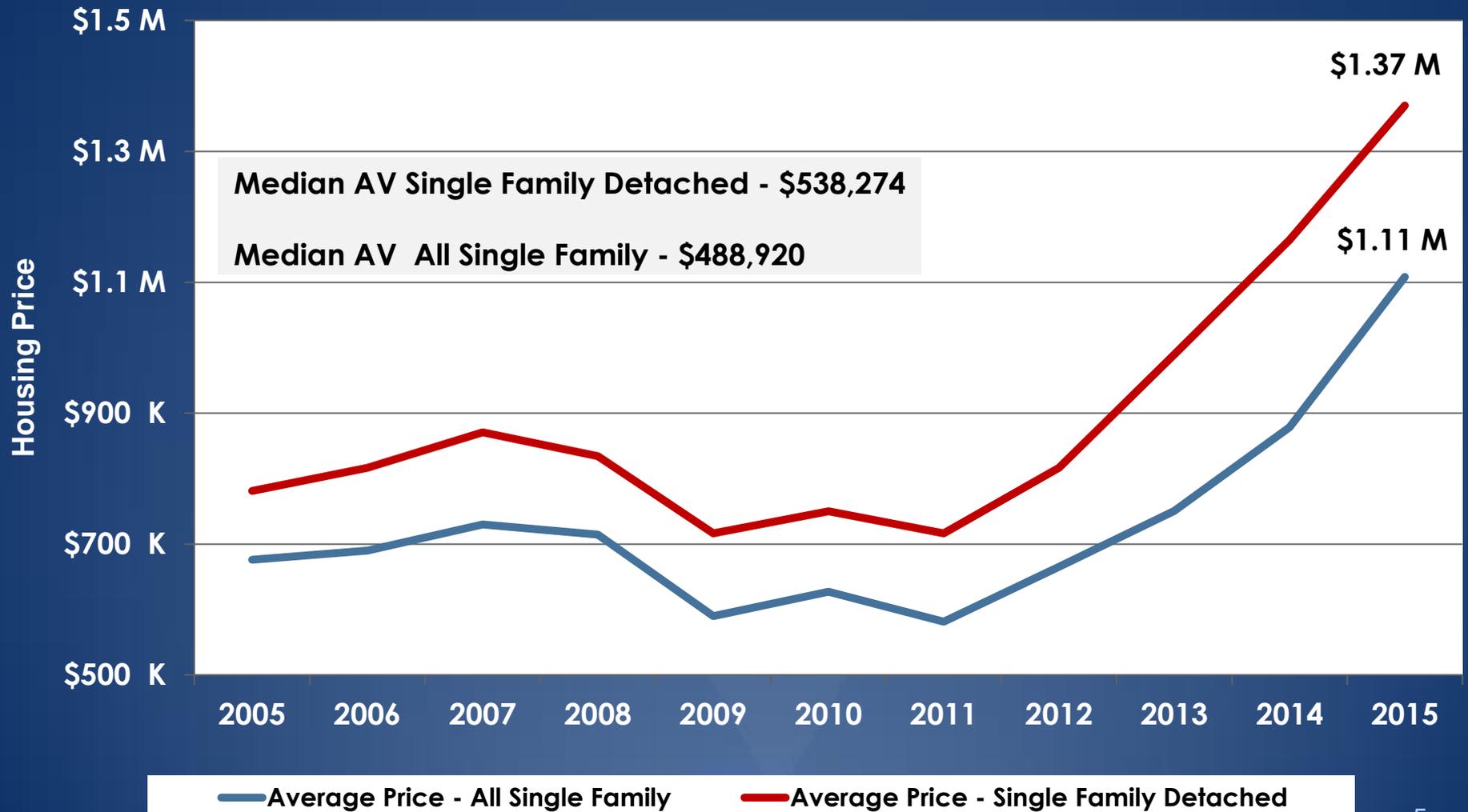
# Jobless Rate – Through Nov 2015



# Building Permit Revenue



# Sunnyvale Home Sales



# 2016 Economic Forecast - Trends

- Globally
  - Monetary policy normalization
  - Global conditions, especially in emerging markets
  - Volatility in foreign markets
- Locally/Regionally
  - Sunnyvale leading the economy
  - Peak levels continue for several revenue sources
  - Addressing unfunded liabilities
  - Managing revenue volatility
  - Income inequality/Social equity

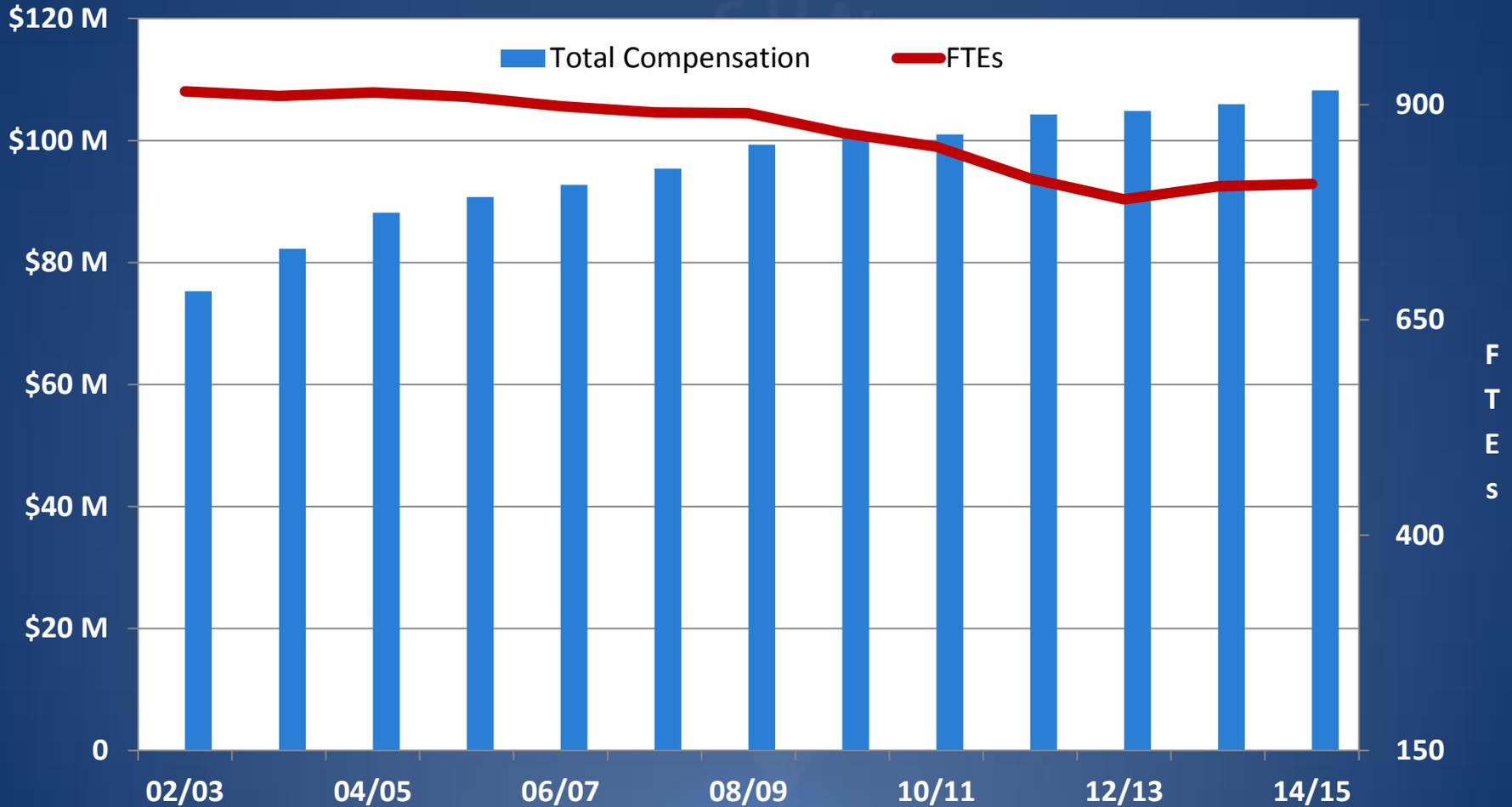
# Remaining Stable and Sustainable

- Budgeting in good times must be disciplined with a focus on the long term
- In Sunnyvale, a strong economy is leading to strong revenues
- In order to remain stable, the City must continue to review its sustainable revenue and expenditure base
- Sunnyvale is resourced for operations – limited capacity for new initiatives in a 20-year term
- Balancing priorities is critical

# The Other Side of a Positive Economy

- City project costs are increasing
  - Construction costs up due to demand
  - Bids exceeding engineer's estimates
  - Prevailing wage requirement
- Demand for services up
  - Significant transportation projects underway
  - Catching up with maintenance on aging infrastructure (e.g. streets, sidewalks, trees)
  - To meet demand succession planning is critical workforce demographics change

# Staffing Costs vs. Levels

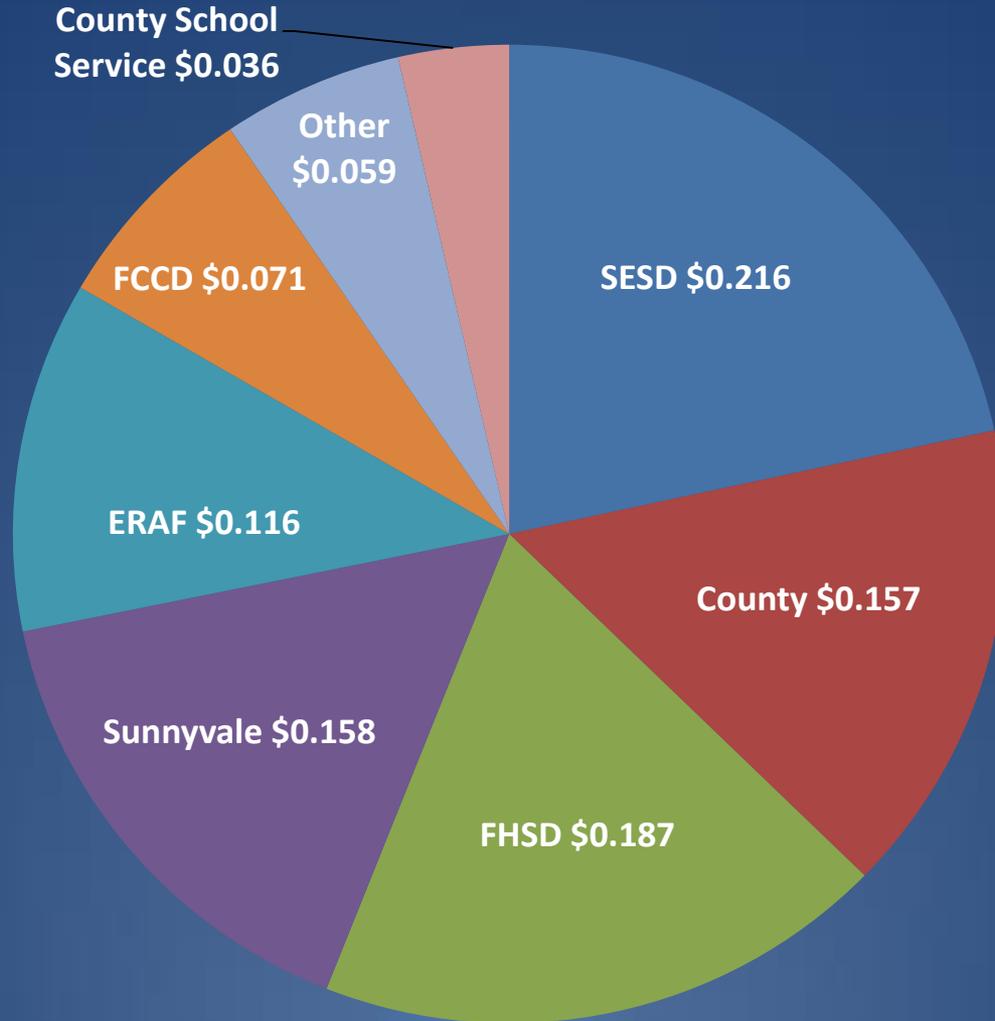


# FY 2015/16 Major General Fund Revenues

	Stable	Trend	City Controlled	Percent of General Fund <sup>1</sup>
Property Tax				43%
Sales Tax				25%
TOT				9%
UUT				5%
			<b>Total</b>	<b>82%</b>

1. Excludes Revenue from Sale of Property

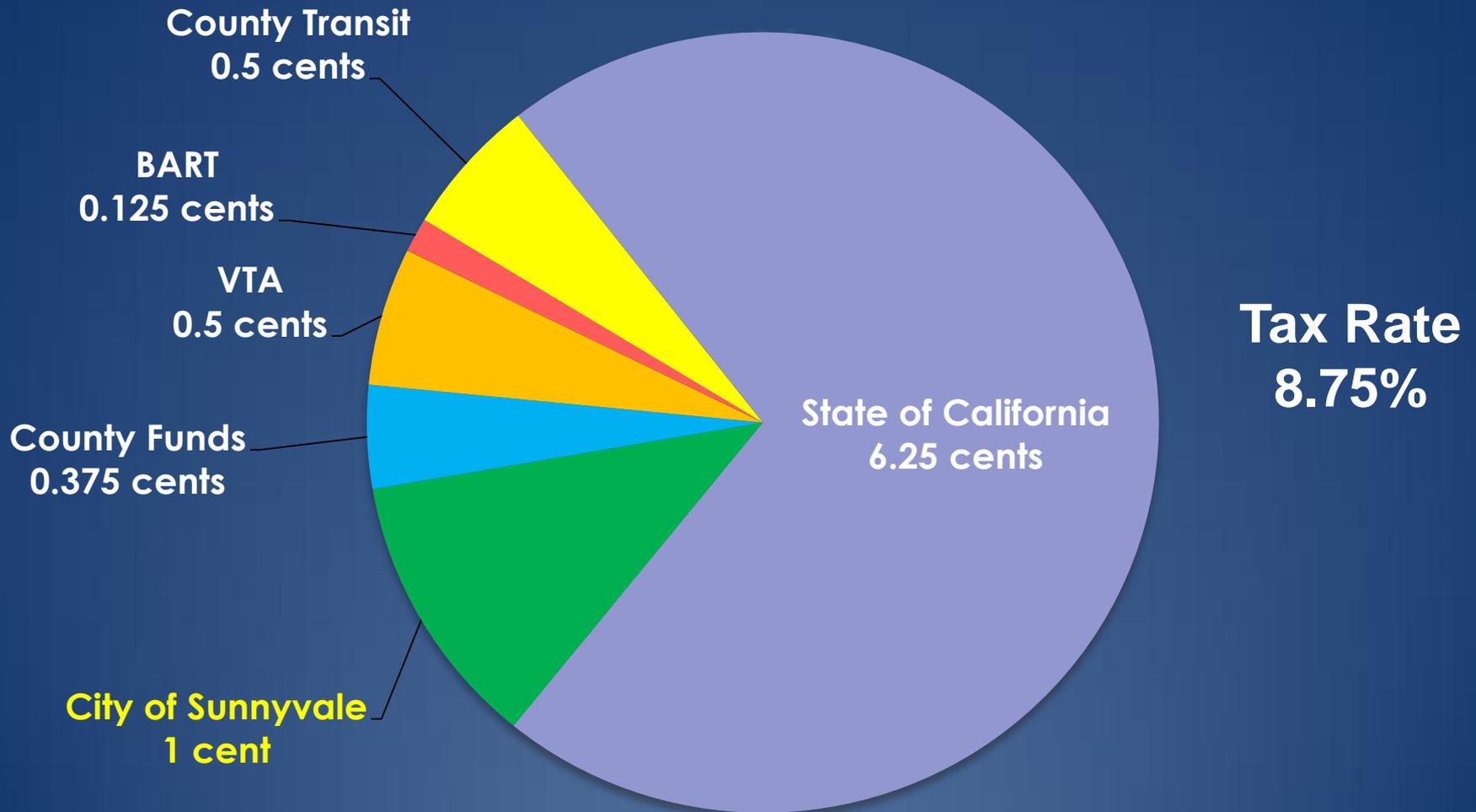
# Property Tax Breakdown - \$1.00



# Property Tax

- FY 2015/16 projection - \$56.5M
- Significant commercial growth projected
- On track to exceed projection
  - Assessed valuation up 11% over FY 2014/15
  - 6% already built into the FY 2015/16 budget
- FY 2016/17 tax roll – CPI adjustment 1.5%

# Sales Tax Breakdown

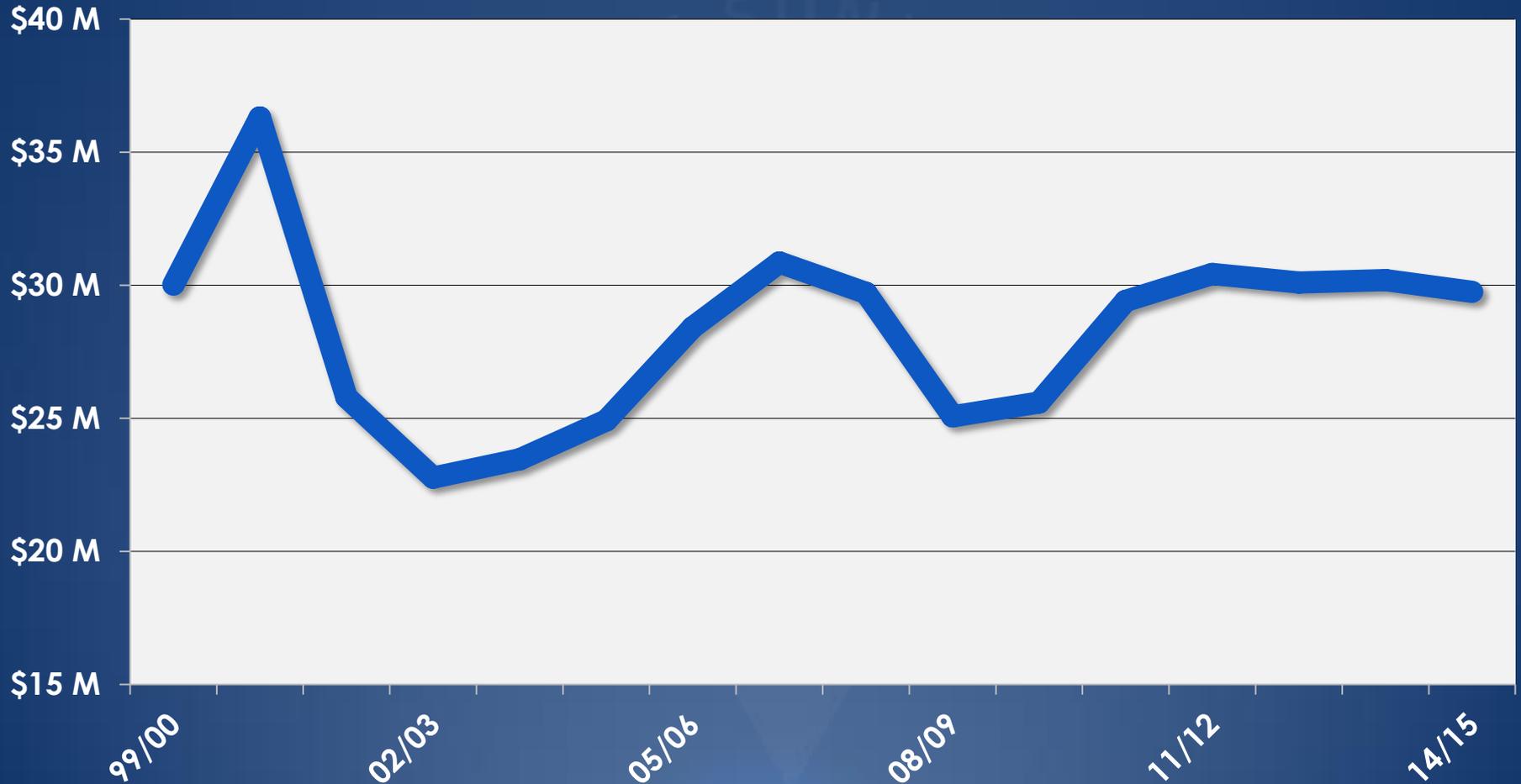


# Sales Tax

- FY 2015/16 Budget - \$31.9M
- Volatile revenue source
- Business to Business sector makes up 40%
- FY 2015/16 - 1<sup>st</sup> Quarter up 2% over prior year
- Increases in County Pool reflect shifting economy from retail to on-line purchases
- Need to evaluate carefully to determine sustainable revenue base

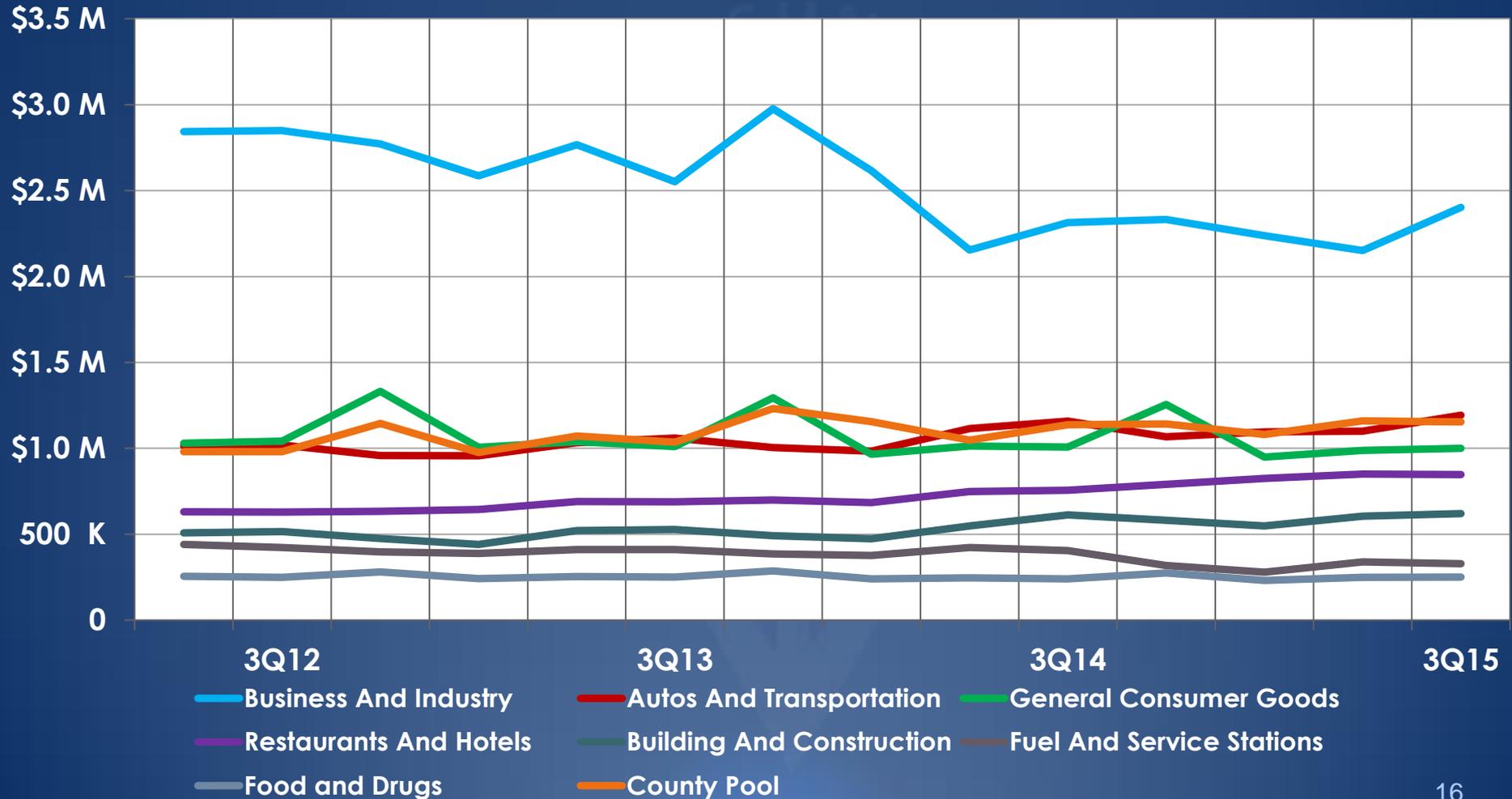
# Sunnyvale Sales Tax Revenue

15 Year History



# Sales Tax Revenue

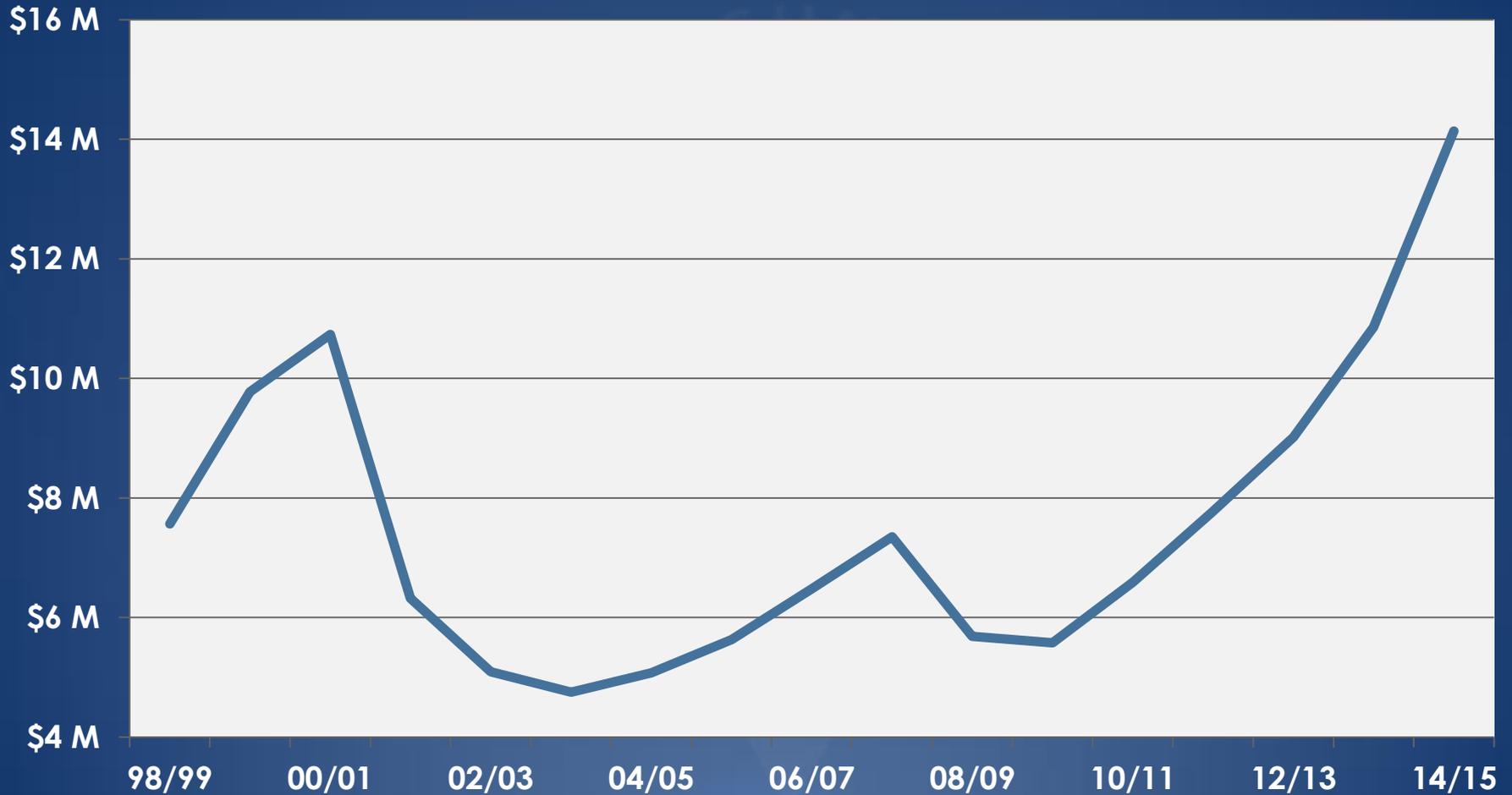
## Results by Major Industry Group



# Transient Occupancy Tax (TOT)

- FY 2015/16 Budget - \$11.4M
- Significant growth – FY 2014/15 up \$3.3 M from FY 2013/14
- Historically volatile but also at historic highs
- Evaluating new hotels and ongoing revenue in development of the long-term plan

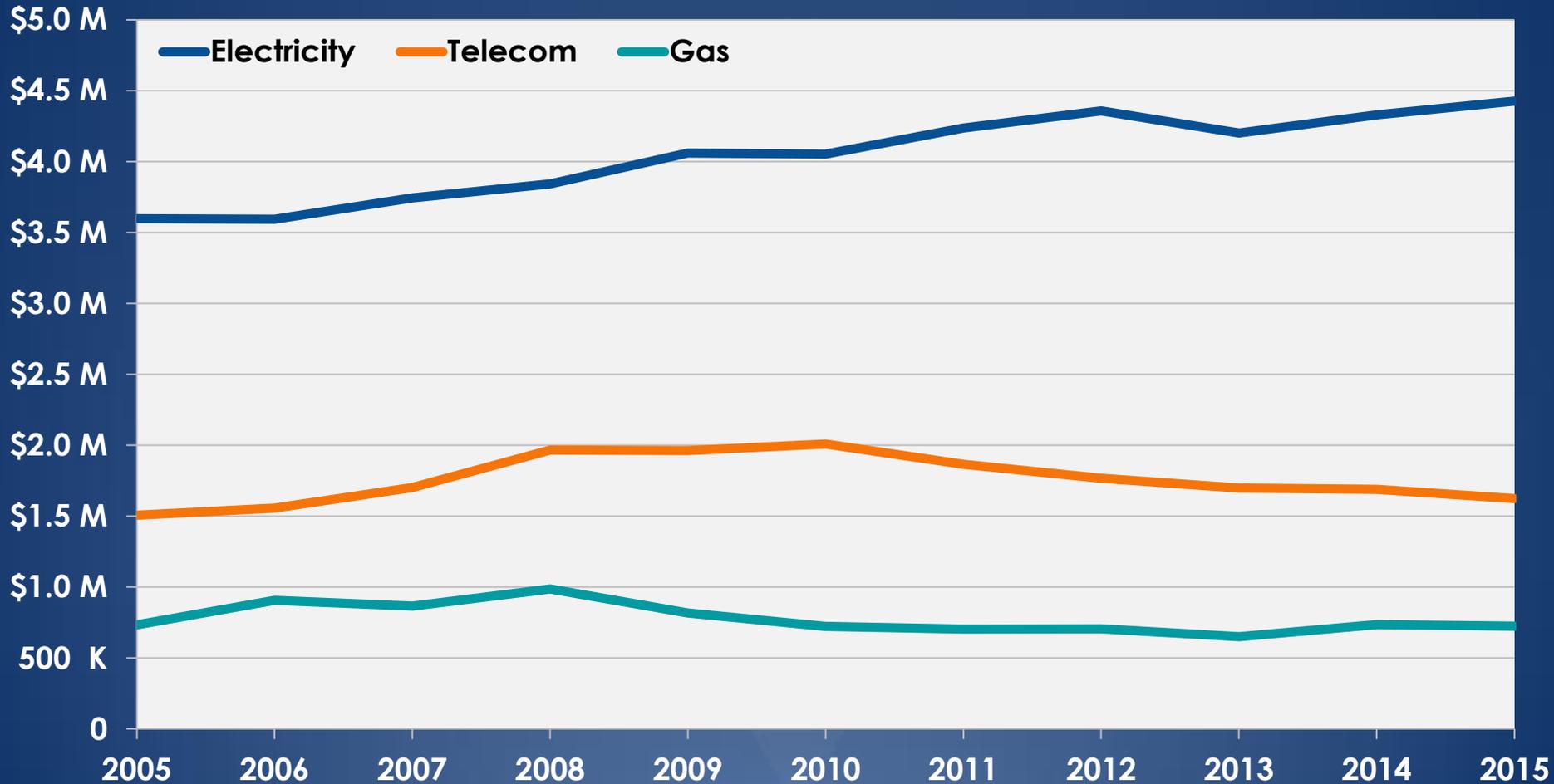
# TOT Revenue by Year



# Utility Users Tax (UUT)

- UUT revenue base is evolving
- Electricity revenue moderated by energy efficiency gains
- Telecom base deteriorating – new forms of communication services not subject to UUT
- 2015 Study Issue to explore Modernizing the City's UUT ordinance – scheduled for Council consideration in April 2016

# Utility Users Tax (UUT)



# FY 2015/16 General Fund Operations

Department	Budget	Current	% of Budget
CDD	\$1,029,275	\$512,440	49.8%
FIN	\$8,521,098	\$4,061,796	47.7%
HRD	\$3,862,212	\$1,844,315	47.8%
LCS	\$17,053,707	\$7,996,218	46.9%
OCA	\$1,457,386	\$636,010	43.6%
OCM	\$3,931,608	\$1,880,690	47.8%
DPS	\$80,877,253	\$40,573,263	50.2%
DPW	\$20,706,618	\$9,911,027	47.9%
<b>Total</b>	<b>\$137,439,157</b>	<b>\$67,415,759</b>	<b>49.1%</b>

50.82% of the fiscal year has elapsed

# Development Enterprise Fund

- Revenues and activity remain elevated
- FY 2015/16 Revenue Projection – \$11.4M
- YTD revenue already at \$8.5M (74%)
- Fund expenditures at 52%
- Challenge during this peak period is managing service demands while ensuring sustainable funding of services over the long run

# FY 2015/16 Utility Fund Operations

- Water enterprise fund under pressure from drought
  - Wholesale water rates to rise – preliminary numbers range from 19% to 33%
- Solid Waste implementing zero waste goals
- WPCP renovation underway
  - Significant rate increases currently built into long term financial plan
  - State Revolving Loan application submitted

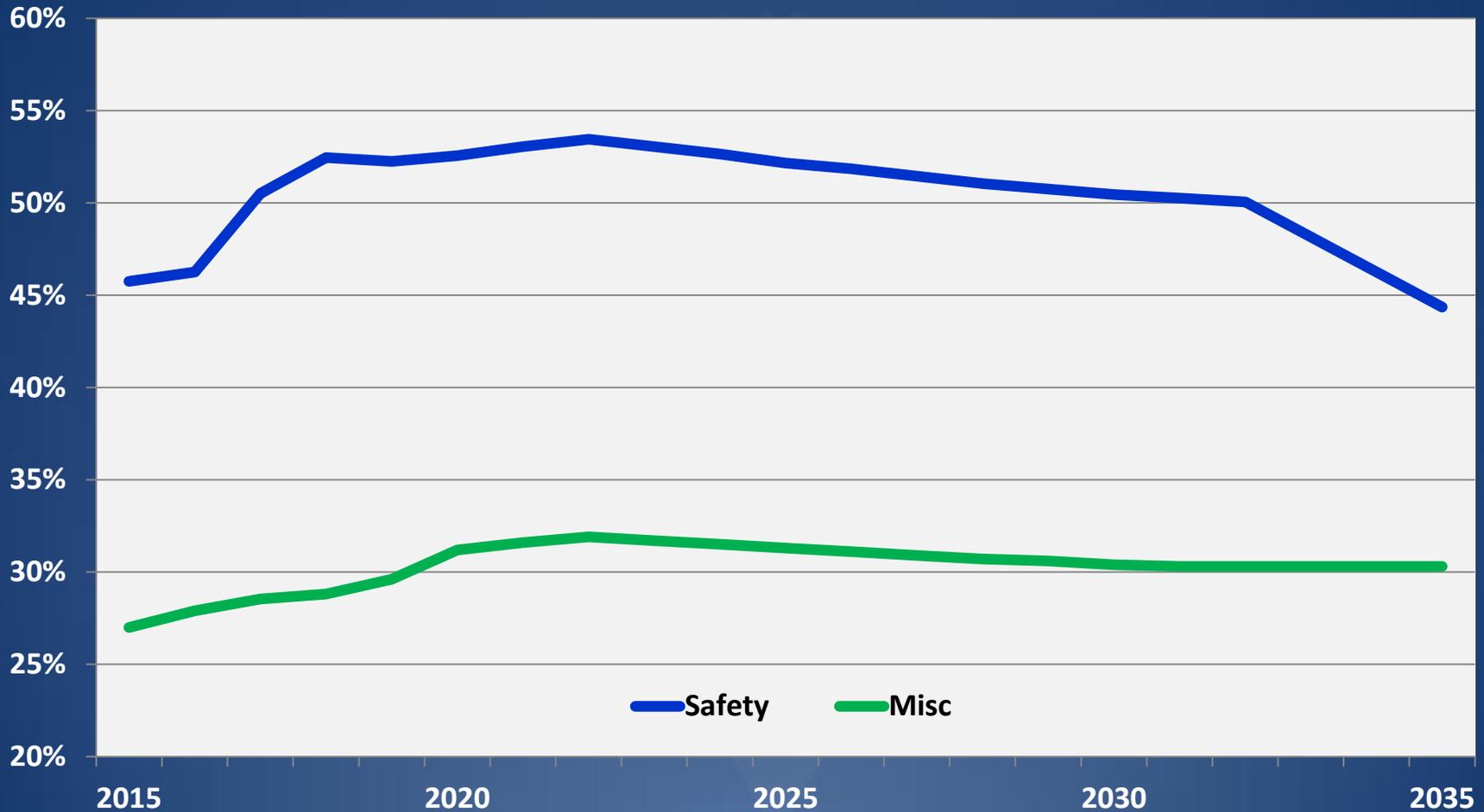
# Pension Costs

- Significant increases over last 10 years
- Current unfunded liability totals \$268M
- Pension costs rising due to actuarial methodology, demographic assumption changes, de-risking policies
- Investment returns were under target for 2015 – projected FY 2017/18 rates up over budget
- All employees projected to pay full employee contribution rate by FY 2019/20

# Pension Costs

- FY 2013/14 Investment Returns were 17.7%
- FY 2014/15 – Investment Returns were 2.4%
- Most recent projected employer rates adjusted, higher in FY 2017/18 than planned
- Currently evaluating impact on long term projections

# PERS Contribution Rate Projection



# Retiree Medical Funding

- OPEB Trust over \$65M
- Actuarial valuation every 2 years
- Implied subsidy – employer cost for allowing retirees to participate at blended premium rates
- Total OPEB liability as of June 30, 2014 - \$92M
- Other health care costs higher than planned

# FY 2015/16 Budget Stabilization Fund Reserve



# FY 2016/17 Recommended Budget

- Focus on operating budget
  - Increasing costs driving up base operating budget
  - Additional resources being considered in service delivery clusters
- Currently updating revenue forecasts
- Balancing revenues and expenditures to maintain a positive balance for the whole 20 years
- Compensation assumptions consistent

# Unfunded Programs and Projects

- Developing a list of unfunded programs or projects for budget workshop
- List is dynamic and not anticipated to be all inclusive
- Examples include:
  - Information Technology Systems replacements
  - Safe routes to schools funding
  - Sidewalks, curbs, and gutters
  - Corporation Yard Modernization
  - Water, Sewer, and Stormwater Infrastructure
  - Climate Action Plan implementation
  - Traffic signal infrastructure

# FY 2016/17 Recommended Budget Next Steps

- Utility Rates under development with focus on water pricing
- Proposed Utility Rates noticed end of April
- City Manager's Budget delivered to Council in early May
- Budget Workshop on May 26, 2016
- Public Hearing and Budget Adoption in June

# Conclusion

- Sunnyvale is resourced for operations – limited capacity for existing initiatives
- City has limited control over revenues and some expenditures
- Unfunded programs and projects are significant
- Balancing priorities is critical to success
- Build in capacity for unanticipated initiatives
- Budgeting in good times must be disciplined with a focus on the long term